

Message Text

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44

ACTION NEA-12

INFO OCT-01 EUR-25 ADP-00 EB-11 AID-20 CIAE-00 COME-00

FRB-02 INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12

CIEP-02 LAB-06 SIL-01 OMB-01 NSC-10 SS-15 STR-08

CEA-02 L-03 H-02 PA-03 PRS-01 USIA-12 ABF-01 FS-01

DODE-00 AGR-20 OPR-02 RSR-01 /192 W

----- 033089

R 091235Z JUL 73

FM AMEMBASSY NICOSIA

TO SECSTATE WASHDC 7593

INFO AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY TEL AVIV

AMEMBASSY ATHENS

AMEMBASSY ANKARA

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TEL AVIV FOR AGATT; PARIS FOR RFC

E.O. 11652: N/A

TAGS: EFIN, FEP, PFOR, ALOW, AFSP, CY

SUBJECT: QUASI FLOAT FOR CYPRUS POUND

REF: NICOSIA 593 (NOTAL)

1. CYPRUS CENTRAL BANK ANNOUNCED JULY 8 THAT IT WILL NO LONGER OBSERVE IMF MARGINS OF 2.25 PERCENT TO EITHER SIDE OF OFFICIAL CENTRAL RATE FOR US DOLLAR. (BASED ON OFFICIAL GOLD CONTENT, CENTRAL RATE IS \$2.8952 EQUALS CYPRUS POUND 1.) CENTRAL BANK WILL CONTINUE PRACTICE OF SETTING DAILY RATE OF CYPRUS POUND IN ACCORDANCE WITH WEIGHTED AVERAGE OF FLUCTUATIONS OF CURRENCIES OF CYPRUS' MAJOR TRADING PARTNERS, BUT WILL NO LONGER BE BOUND TO STAY WITHIN IMF BANDS FOR US DOLLAR.

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2. CENTRAL BANK SAYS DECISION AIMED AT MAINTAINING VALUE OF CYPRUS POUND IN RELATION TO CURRENCIES OF CYPRUS' MAJOR TRADING PARTNERS.

3. ON JULY 9, CENTRAL BANK BUYING DOLLARS AT RATE OF \$3.046 EQUALS CYPRUS POUND 1. THIS REPRESENTS AN ALMOST THREE PERCENT APPRECIATION FROM FORMER CEILING RATE OF \$2.96045, WHICH HAD BEEN ATTAINED BY JULY 7.

4. COMMENT: AS CYPRUS POUND IS NOT INTERNATIONALLY TRADED CURRENCY, GOC'S STRINGENT EXCHANGE CONTROLS SHOULD CONTINUE TO PROTECT RATE AGAINST SPECULATIVE PRESSURES. WE ASSUME THAT CYPRUS POUND EQUIVALENT OF US BUDGETED EXPENDITURES HERE WILL REMAIN BELOW \$2.92 TO CY POUND 1 RATE AT WHICH WE COMPUTED POST BUDGET, REQUIRING ADJUSTMENT IN BUDGET AND ALLOWANCES.

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Message Attributes

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30 JUN 2005

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